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IS THREE A CROWD?

Third-party logistics services run the full gamut of sophistication. These vendors provide relatively simple services like freight bill auditing and payment, yet they also perform complete logistics services, from transportation to information management. How are you using these services? Are they a cost-effective alternative for some of your logistics needs?

"Third-party logistics services means specialization of our transportation needs. This specialization will decrease total costs and increase the overall effectiveness of our fleet." **—Dennis Webber, traffic mgr., Interstate Brick Co., W. Jordan, Utah.**

"Third-party logistics services have had no part in our distribution network, nor will they have a part in the future. As long as our top management commits the company's resources to our department, we can outperform any outside agencies. And as long as we contribute handsomely to bottom line profits we will continue to have management's full support." **—Ron Duin, director of distribution, Global Equipment Co., Hempstead, N.Y.**

continued

We use 3rd party logistics services regularly for:	
contract carriage	33%
freight bill auditing/payment	21%
public warehousing	13%
consulting	12%
Our use of 3rd party services is greater than it was five years ago	89%
3rd parties can provide more efficient service than our in-house staff	49%
cannot provide more efficient service	51%
Our company is moving toward replacing transportation/distribution operations with a 3rd party vendor	49%
Which departments are most likely to be replaced?	
private fleet	21%
traffic	18%
private warehouse	15%

QUESTION OF THE MONTH

ARE TRUCK RATES CLIMBING?

Second quarter earnings reports reveal that some of the nation's largest motor carriers are having a rough go of it out there. Nearly everyone blames it on the vicious discounting wars that have embattled motor carriers since 1980. Do you think there is an end in sight to these discount wars?

How about general rate levels? One strategy motor carriers are using to take the sting out of discounts is to raise the base rate through general rate increases. Major rate bureaus such as the Middle Atlantic Conference and the Rocky Mountain Bureau have announced rate increases ranging from 3.25 percent to 5 percent. But what will the real impact of these proposed increases be on shipper's real freight costs?

Do you see your rates climbing in the coming year? If so, what will your strategy be to offset the higher cost of moving your goods?

DISTRIBUTION wants to know what's happening with freight rates these days. Is the discounting frenzy continuing unabated? Are discounts getting deeper? How have the general increases at the major rate bureaus affected your rates? Have you been able to negate their impact?

- The frequency and level of freight rate discounting is _____increasing/_____decreasing.
- My management expects me to secure a certain discount level. _____yes/_____no.
- The average discount my company receives now is _____ percent.
- The average discount my company received a year ago was _____ percent.
- A general rate bureau increase of 4 percent would translate into an effective increase to my company of: _____4 Percent _____3 percent _____2 percent; _____1 percent; _____0 percent.
- The best way to avoid the impact of general rate bureau increases is to (check one): _____concentrate freight among "cooperative" carriers; _____be a tough negotiator; _____play one carrier off against another; _____find another carrier; _____use a broker; _____adopt a released-value rate; _____other (describe): _____
- In what area are rates going up the most? (check one): _____truckload; _____LTL interstate; _____LTL intrastate; _____intermodal; _____other (describe): _____

I'd be willing to pay higher freight rates if:

_____

_____

_____

_____

_____

_____

NAME (print) TITLE

COMPANY PHONE

ADDRESS

CITY STATE ZIP

FIGURES IN SPEECH

(Quotes from transportation and distribution notables that have caught the ears of DISTRIBUTION editors:)

"The goal of Customs is to operate in a paperless environment. We don't necessarily need all the document materials to clear and release your freight. In fact, we'd be happy to eliminate checks and drafts in favor of moving monies electronically.... We're going through this process in fits and starts, but we are making meaningful progress. We are trying to meet your needs. We know that with air cargo the documents often do not move as fast as the freight. Automating the process while minimizing the paperwork required may finally permit air freight to realize its full potential in terms of door-to-door timeframes."—**Samuel H. Banks, assistant customs commissioner, inspection & control.**

•

"When focusing on overseas markets, the U.S should lead from one of its major strengths—its already highly developed logistics capabilities. Unlike the value of the dollar, the logistics function is under our control. Logistics not only is a major factor in landed costs, it is a major *controllable* factor. It can make a difference in America's competitiveness."—**Elliot Schrier, president, Manalytics, Inc.**

IS THREE A CROWD? continued from p. 7

"Until companies become more familiar with logistics, third-party services can provide expertise in start-up instruction and implementation. But to control costs, the company must eventually take over third party functions and run them internally."—**Paul Kiefer, traffic mgr., BASF/ Inmont Div., Clifton, N.J.**

"We use third parties to handle peaks in our business when it is not cost effective to have a $65,000 tractor for one day a week."—**R. Tindall, vp/traffic, Mennel Milling, Fostoria, Ohio.**

"We don't foresee a change in our use of third-party services. We only use an auditing service, and we only pay for it when it is earned."—**W.A. Haigh, director of purchasing, Mazer Chemicals, Gurnee, Ill.**

"Third-party services give you the flexibility to start up or shut down, grow or shrink, especially in unionized and legislatively restrictive atmospheres."—**A. Klawans, managing director, National Food Distribution Assn., Chicago.**

"For us, third parties are necessary due to an increased workload and no possibility for an increase in staffing. We are looking for the best job possible from people with a broader base of knowledge."—**D.F. Hales, director, purchasing/traffic, Ormet Corp., Hannibal, Ohio.**

"A contract carrier pulls our trailers with our material to our outlying districts for about one-fourth of what it would cost using our union labor."—**Don Nielsen, trans. admin., Sierra Pacific Power Co., Reno, Nev.**

"I see our company using a third party to handle the general logistics of our 16 divisions, but this third party would be an owned subsidiary."—**H. Nicholls, dist. svc. mgr., R.R. Donnelley & Sons, Warsaw, Ind.**

"With many firms downsizing their operations, assets, personnel and direct capital commitments, third-party logistics service companies can play a major role in spearheading materials logistics system innovations. They also can minimize the downside risks of testing and implementing those innovations."—**Dr. Edward J. Marien, dir., transportation seminars, Management Institute, Madison, Wis.**

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INTERNATIONAL LOGISTICS

Passport to Profits

IF YOUR BUSINESS HASN'T YET "GONE INTERNATIONAL" CHANCES ARE IT SOON WILL. DO YOU AND YOUR COMPANY HAVE THE SKILLS AND ATTITUDE TO MAKE LOGISTICS A COMPETITIVE FACTOR IN IN THE GLOBAL MARKETPLACE?

By E.J. Muller, West Coast Editor

Check this out. A large retailer of consumer electronics recently paid a large consulting firm a large amount of money to examine its operations and recommend cost and service efficiencies. The consultant walked in to meet with the president of the company, who was brandishing a shipping trade newspaper. Right off the president says, "Do you think $4,500 is too much to spend on a container crossing the Pacific?"

"Yes," says the consultant. "You shouldn't have any problem getting rates around $3,000. Why aren't you?"

"Oh, well, that's Charlie's area. He doesn't get into the international side too much," explained the president.

"Really? What's Charlie's title?" asked the perplexed consultant.

"Director of Logistics. Why?"

Laugh a little, but not too loudly. Because it's a true story, not a joke. And it seems to be true of more companies than you might expect, considering the passionate crusade that's been going on for years about the "internationalization" of business and the need for integrated global logistics.

Despite every indication that American businesses will continue to get more deeply involved in procuring, manufacturing, assembling, buying and selling (yes, *selling*) overseas, most U.S. companies are not properly prepared to use logistics to their competitive advantage. The company president in our opening scene is representative of the vast majority of executives in America: Unaware of the intricacies of shipping, and oblivious to how that aspect of the business impacts marketing and customer service. It seems as if all the talk about a brave new world of global logistics is taking place in a rarified atmosphere—glassy consultant's offices, expensive seminars, trade magazines. The gap is huge between the theory of global logistics and the reality of international transactions. "More companies are doing planning for international operations," relates Dale Marco, vice president of management consulting firm A.T. Kearney, "but you don't see a lot of it trickling down to the practical level. You don't see much in the way of tactics."

Marco believes it's because most of the planning going on is not comprehensive. It doesn't consider transportation and distribution as part of the big picture. In larger companies, that leads to fragmented decision-making, often based on unclear direction.

Time To Rethink Approaches?

It is important to realize that the global logistics trend is not affecting only huge multinational corporations. The logistics operations employed by globe-spanning manufacturers often benefit from tremendous capital investment in offshore plants and warehouses. Global logistics is nothing new to these companies; it's the way they've done business for years.

Smaller companies involved in importing or exporting don't have the kind of steady product flow that would benefit from an integrated approach to logistics. They frequently decide that the best thing to do is to get a trusty forwarder or broker and let them handle the shipments. But if business booms for that small company, the time will come when it will have to take another look at how it handles international transac-

continued

THE EVOLUTION OF LOGISTICS MANAGEMENT

STAGE	I	II	III	IV
Activity Focus	• Today	• This month	• This year	• Long-term
Effectiveness Measure	• Actual cost versus sales	• Actual cost versus budget	• Actual versus annual goals	• World competition
Reason for Action	• Crisis	• Budget pressure	• Improvement program	• To gain strategic advantage
Type of Action	• Quick fix	• Cost reduction	• Productivity improvement	• Integrated planning
International Activity	• Receiving inbound containers • Arranging forwarders to handle export shipments	• Negotiating with overseas suppliers for transportation • Arranging export shipments	• Setting up overseas distribution • Setting up JIT suppliers • Production scheduling	• Integrated operations planning and control worldwide • Participation in strategic decisions worldwide

WHERE DO YOU FIT IN?

In its presentation "Developing Global Strategies for the 1990s," A.T. Kearney determined that companies involved in overseas activity could be viewed in four stages. While most of the talk about integrated logistics revolves around Stage IV multinationals, the same principles often apply to Stage II and III companies. Speculation about U.S. companies adopting a more sophisticated approach to international logistics hinges on these small to mid-sized firms taking firmer control of overseas traffic and distribution by making it part of their advance planning.

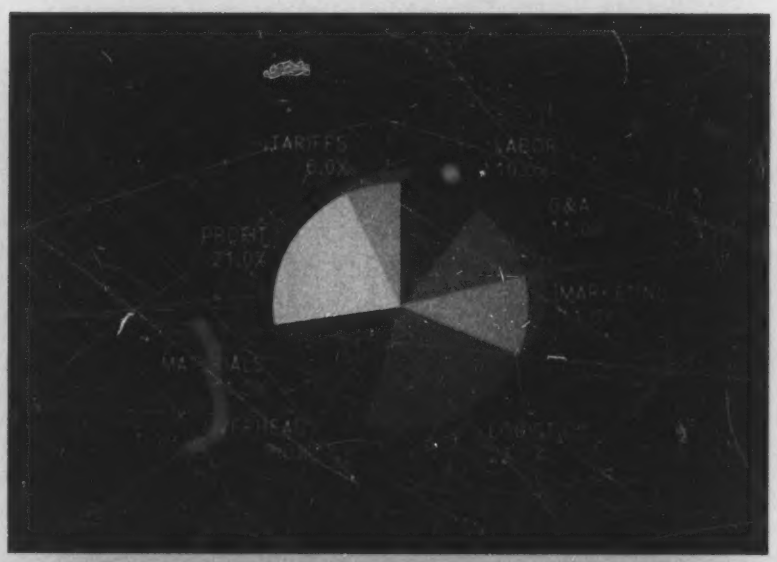
tions. It's the companies making those initial forays into a broader international arena which have the most to gain from a fresh, integrated approach to logistics. These are the companies which will either accept or reject the notion of global logistics.

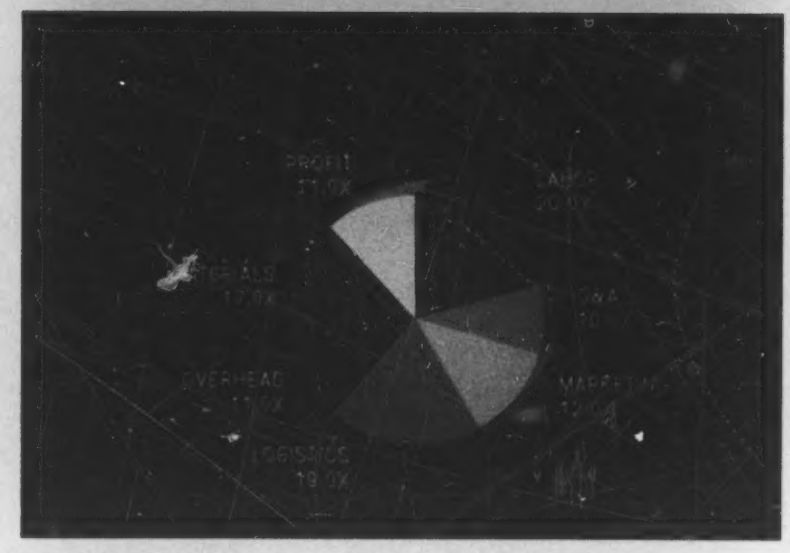
"When international business reaches about 10 percent of sales, that's when most businesses first start paying attention to how the freight is actually moving," says Dave Anderson, vice president of logistics for consulting firm Temple, Barker & Sloane. But to date "paying attention" hasn't really developed into any significant changes in the way most companies handle international logistics, admits Anderson.

So is all the talk of logistics being a competitive weapon in the global market only that—talk? "It can certainly be a competitive factor," Anderson asserts, "but a lot of people don't understand why. It's still typically a case of, 'We got an order, we filled it, that's it.' They don't realize that in the international market, the customer could say, 'You were so expensive last time we're not going with you again.' "

To really be internationally competitive, U.S. companies, regardless of size, will have to address the issue of how logistics affects global sales and service. Anderson asserts that foreign businesses have made far greater headway in this area. "There's a Japanese auto manufacturer involved in a joint venture in the States, and from the very start its goal was to have the most cost-efficient inbound-outbound logistics operation in the world," he relates. "They knew that without it they wouldn't survive. They planned it all out up front, because they knew that logistics costs were the only variable."

Many U.S. companies, by focusing only on international sales and marketing, have never been able to grasp the "hidden costs" involved in logistics. "Most companies are buried in traditional cost accounting," says Kearney's Dale Marco, "and are unaware of significant hidden logistics costs. The companies that address these costs will be successful; others probably won't be around."





THE CASE FOR INTEGRATING LOGISTICS WORLDWIDE
These charts compare the cost of manufacturing through a domestic plant and an overseas plant. With offshore plants, the cost of labor, materials and overhead is lower, while the cost of logistics is higher and the cost of tariffs becomes a factor. The potential for profit is greater, too. How much greater can, to a large extent, be up to the logistics department.

Separate Int'l and Domestic?

Most of the progressive thinkers in the logistics area seem to share the notion that if a company plans to expand its sourcing or sales overseas, it should break down the traditional division between domestic and international departments. While maintaining separate domestic and international staffs makes sense, not having a core group responsible for the integration of the two departments could be a mistake. "In small to

continued

medium-sized companies," Anderson notes, "I do see a global logistics manager emerging. His or her job will be to understand the business from a broader perspective, to have expansive insights, not just to expedite freight."

It seems, however, that even in progressive companies, the trend toward global logistics is slow and painful. America's 12th largest exporter, a manufacturer with plants across the globe, recently told us it was embarking on an "international re-education" program for U.S. employees involved in international logistics. "There are still too many domestically-oriented individuals," says a company source.

"A lot of domestic people are afraid of international," says Chuck Marr, director of corporate traffic for Hewlett-Packard. "That means they tend to ignore the fine points. I've found that the people who are successful in international transactions are those with an international aptitude."

That means not falling victim to the traits that Dale Marco sees afflicting many U.S. shippers who deal overseas. "We don't listen well enough over here. If we did, we might not have to spend so much," he says. "We think in the U.S. that all business revolves around us. Well, things are done

GLOBAL PERSPECTIVE: COMPARING

Having sensed that a widening gap exists between international logistics theory and the daily practice of moving freight around the world, we decided to compare International *Theory* with International *Practice* by having a consultant and a practitioner address five points concerning changing trends in global logistics.

DAVID ANDERSON

David Anderson, vice president, logistics for Temple, Barker & Sloane is one of the most respected consultants in the field. Numbered among his clients are a host of leading Fortune 500 companies.

INTERNATIONAL THEORY

1. Should international logistics be separated from domestic?

"Companies must focus on *total* delivered price and service quality to compete in today's global markets. Rapid growth in multinational product flows, coupled with an increased focus on source-to-customer distribution channel management argue for integrated domestic and international logistics."

2. What are the critical issues affecting international logistics managers?

"Increasing difficulties in managing overseas logistics; no longer is a competent local manager sufficient. Improved interface with key departments and frequent communications are key. Leading edge companies are putting overseas carriers, facilities and third parties on-line to closely monitor activities.

"Integrating information systems across international logistics channels. Not only do domestic/foreign communications need improvement, but information bases supporting the various transactions and decision-support systems must be revamped to permit service level and productivity improvements throughout logistics functions.

"Foreign trade restrictions and economic unrest are becoming more subtle and sophisticated; long supply lines, coupled with labor unrest, can shut down inbound product moves overnight. Logistics managers must carefully monitor potential changes in countries in which they operate.

"Adapting to free market currency variations requires sophisticated planning. Daily fluctuations in currency levels can cost a company millions. One U.S. company values all European transactions in European Currency Units, avoiding internal problems in judging inter-country financial performance."

3. What skills are needed to be a global logistics executive?

"The ideal candidate would be well-rounded, both from an educational and business perspective. An MBA is preferred, with courses in international business essential. Within a company, the candidate should have served both at home and overseas in one or more key business functions: marketing, finance, operations, or logistics. Finally, the candidate should have a business *weltanschauung* (world view) of markets, manufacturing and logistics systems."

4. Will any dramatic changes occur in international logistics over the coming year?

"Foreign companies are much more knowledgeable about how logistics can be used as a competitive weapon to penetrate a market. U.S. companies will face enhanced competition both in domestic and foreign markets based in part on the use of innovative systems now under development."

5. What steps should small to medium-sized companies take to avoid the "wash our hands of it" approach to international logistics?

"In many companies, logistics is relegated to lower management. Successful international companies have a senior executive who has a *daily* interest in logistics. To do this, smaller companies are now requiring overseas carriers, manufacturers and third parties (brokers, forwarders) to provide on-line shipment status information for control purposes."

differently in other parts of the world and we can't afford to have an arrogant attitude. As international business expands, that attitude will have to change."

How is international different from domestic? The most obvious difference is paperwork; customs requirements, more bills of lading, letters of credit, more doubt, more splitting headaches. That's why so many smaller companies leave those burdens to freight forwarders and customshouse brokers. But going that route doesn't always dispel ignorance; often, it merely displaces it. A company that wants to control its logistics, and its costs, needs to *comprehend* its international logistics, not merely pass on the responsibility to a forwarder or customs broker (see sidebar, p. 20).

Carriers Impact

Carriers have started to play an interesting role in the development of international logistics. Companies such as American President Companies, Sea-Land, Maersk, and a host of Far Eastern steamship lines now bill themselves as total transportation companies, able to handle international movements door-to-door.

This assuages many shippers' traditional fears of international

continued

LOGISTICS THEORY AND PRACTICE

Robert Vidrick, director of corporate transportation for Robertshaw Controls Corp., is an esteemed transportation industry veteran. He frequently jokes about the evil "Three C's" of logistics: Computers, consultants and college professors.

ROBERT VIDRICK

INTERNATIONAL PRACTICE

1. Should international logistics be separated from domestic?

"No. It should be integrated into domestic logistics. That could mean a reorganization of the current T&D department. Consider a pipeline from Chicago to Tokyo: in order for the product to flow smoothly you can't put a valve in the pipeline at the port and turn it on and off. You need a continuous flow. Since domestic carriers are now interfacing with their international counterparts, the T&D department must complement this interface."

2. What are the critical issues affecting international logistics managers?

"The international customer expects a landed price of his product, including transportation and documentation costs. It can be a problem when the price quotation must be forecast as much as 120 days in advance, or more, so the customer can get proper import authority and necessary financial documents. It's difficult to lock in a price because of the constant price changes in various transportation modes. If you are quoted a price in June for delivery overseas in November, did you allow for the truck rate increase that will take place in October? Exactness on price quotations is almost mandatory in international sales.

"Transit time is critical, more so than in domestic. Letters of Credit, arranged weeks in advance, note specific shipping times. They must be met. If you fall behind and try to make up for it by shipping air freight, you'll get stuck with the cost unless that mode is specifically designated in the Letter of Credit. Also, the documentation is vital. An error or oversight can cause terrible delays."

3. What skills are needed to be a global logistics executive?

"You first have to hone skills that you developed in the domestic area. The principles are the same, and a strong base is needed. Then you have to understand how the rules of international logistics vary from domestic. Education in U.S. government, foreign regulations and international banking procedures is mandatory. You needn't go to formal classes, just read the pertinent regulations that exist on each subject. You can't get complacent though, because rules and regulations are changing every day."

4. Will any dramatic changes occur in international logistics over the coming year?

"The administrative requirements of the exporter or importer will increase. Even though the government says it's doing everything to promote exports, it is increasing the administrative work, not reducing it. For instance, the Harbor Maintenance Fund requires an exporter to maintain records of all export shipments so a quarterly check can be sent to Customs. This is a hardship to the exporter at the same time they are asking businesses to sell more overseas. Licensing and documentation will continue to be time-consuming. We can only hope that a lot of the work will be done via EDI systems."

5. What steps should small to medium-sized companies take to avoid the "wash our hands of it" approach to international logistics?

"Talk to a comparable company that is engaged in international business and get their views. If you are exporting, get the local Department of Commerce field office to help you. The Commerce people are knowledgeable and willing to help. And lastly, get educated, either in the classroom or through advisers. I've found, however, that when it comes to education in international logistics, our colleges are not doing it well enough."

transportation. But this, says Marco, "makes it too easy for the traffic guy. When you pick apart the total movement, you see great opportunity for selection."

We are not denegrating the quality service provided by many of these carriers; we are saying that in some cases, one-stop shopping isn't conducive to a cost-efficient logistics operation.

Customer Service Priorities

The ultimate goal of integrated logistics is improved customer service and greater cost control. While some people shake their head at the idea of establishing service standards in the volatile world of international freight distribution, others are meeting the challenge. Earlier this summer, a seminar at Intel Corporation, the California-based semiconductor manufacturer, spotlighted the company's concerns in improving its global logistics network.

"We need to know our customers better, and we should stop avoiding problems," says Diana Harris, Intel's director of corporate distribution. "Everyone needs to get smarter, to use available data and develop assumptions." Distribution people must become more familiar with their procurement counterparts, and develop strategies to complement the company's production plans, she adds.

"It doesn't do any good to beat your head against the wall trying to lower your cost per pound if you're getting the freight there too late," says Harris. "You have to understand the company's priorities, and that takes an integrated approach." Participants concluded that within the corporate group, people should be assigned the task of sparking facilitation between departments, and make sure that discussion results in *action*.

The Intel distribution folks hit on something essential regarding logistics, especially the international variety: Communication is what it's all about. Between departments, between agents, carriers, buyers and sellers.

Dale Marco has definite opinions on why international logistics planning hasn't been embraced by more U.S. companies. "Top management fails when it comes to developing comprehensive manufacturing and logistics strategies," he says. "There are too many fragmented decisions. The guy in T&D doesn't know what he's supposed to be shooting for, so he spends most of his time 'firefighting.'

"What T&D people should do is ask management, 'What is our plan? How do we fit in? Tell us more.' Management has to consider these things. Otherwise, if businesses continue to expand overseas, you'll see a lot more frustrated distribution people." ★

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FINDING AND KEEPING AN INTERNATIONAL AGENT

International transactions nearly always have an agent involved, a freight forwarder or customshouse broker that helps alleviate the confusion and stress that often accompanies overseas shipments. Too often, however, a shipper merely dumps the shipment responsibility on the agent. Such carelessness always comes back to haunt, either as shipping errors or inflated billing.

Hal Plimpton, a respected international shipping consultant based in Mill Valley, Calif., provided us with a nifty guide to help exporters and importers select a dependable agent, and maintain a constructive relationship with them.

- Know thyself. Thoroughly review your outside service needs. Define what you want handled outside the company. Document your expectations of an international agent.
- Select an agent with the same consideration you would give to hiring employees.
- Bid packages should contain comprehensive profiles of your company activity. Be sure to provide sufficient information to a prospective agent so it is not bidding blind. Otherwise you are setting it up to fail.
- Discuss performance standards, theirs *and* yours. Agree on service levels and document them. They are the benchmark for monitoring service.
- Visit the agent's offices. Assess the appearance and organization. Always look further than the marketing and sales staff. Visit the warehouse and see how the freight actually moves.
- Evaluate information flow. Ask how account handling is documented; how personnel is trained; what kind of backup they have in emergencies.
- If your handling requirements are complex, interview and determine the experience of the operations people handling your account.
- Get the names of other major accounts handled by the agent and check their references.
- Make certain you know how general exceptions are to be handled. Most problems in shipping occur because an agent is left to assume how to handle the situation.
- Operations people on both sides should have an understanding of each other's working environment. Periodic walks through the transaction flow greatly improve the quality of communication.

Says Plimpton: "Agent's problems are not always in their control. A shipper can unknowingly contribute to an agent's deteriorating service level. Computer systems notwithstanding, it's still a people-oriented business. It's cliche, but when problems develop the root is often a failure to communicate. . . constantly."